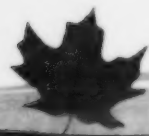




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Audit of the Canadian Audio-Visual Certification Office Program

Office of the Chief Audit and Evaluation Executive
Audit and Assurance Service Directorate

March 2009



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Executive Summary

Introduction

The Canadian Audio-Visual Certification Office (CAVCO) co-administers with the Canada Revenue Agency (CRA), two federal government tax credit programs, the Canadian Film or Video Production Tax Credit (CPTC) Program and the Production Services Tax Credit (PSTC) Program, and a Canadian content audit program. CAVCO had a budget of \$3.5 million in 2007-08.

For the CPTC Program, CAVCO is responsible for estimating eligible labour expenditures, and determining whether a production meets Canadian content requirements, ownership and control requirements. In the past three fiscal years, Canadian producers have received between \$175 and \$200 million in CPTC tax credits annually.

The PSTC Program requires that CAVCO confirm the initial eligibility of the production under Regulation 9300 of the Income Tax Act, and issue the accreditation certificate for this program. In the past three fiscal years, between \$110 and \$125 million in PSTC tax credits were allowed annually.

These two tax credit programs represent between \$285 and \$325 million annually of forfeited tax revenues for the Canadian Government.

A third program, the Canadian Content Certification Audit Program (CCCAP) was created in 2001. In this program, CAVCO identifies a sample of approximately 60 closed files each year to be audited by CRA on their behalf. The Manager of Operations, in consultation with the analysts, decides which files should be reviewed by CRA, to ensure that the Canadian content is equal to or above the required percentage. CAVCO compensates CRA for this service.

This audit also examined the recommendations from the Auditor General's 2005 Report. An assessment of the status on the implementation of remaining recommendation is presented in Section 6 of the report.

Key Findings

The CAVCO budget is entirely comprised of user fees paid by applicants for a given fiscal year. This limits the number of staff and activities that CAVCO can carry out beyond the statutory requirements.

Tools and systems presently used by CAVCO make the application and file management processes difficult and time consuming for the applicants and CAVCO's staff.

CAVCO management expects that a new computerized application process will solve many of CAVCO's problems and free up resources to accomplish proper documentation

and quality control. However, the system and its implementation have been delayed a number of times over the past five years. This has put a strain on CAVCO employees supporting this process and the system in its planned configuration will not resolve all problems when it is delivered.

The audit team observed controls that were properly designed and were being applied effectively within the CAVCO Program:

- The objectives and goals of the program are clear and manageable. Roles and responsibilities are clearly defined and effective for the CPTC, the PSTC and the CCCAP programs. Processes to review and evaluate Canadian content are adequate. The division between CAVCO responsibilities and CRA responsibilities is clear.
- CAVCO's staffing level is adequate for present operations; the number of resources is sufficient to process the regular volume of activities, but there is no available capacity within CAVCO to undertake initiatives that would improve the services presently offered to applicants.
- The expenditure controls were adequate and were operating during the period examined. The budgeting and purchasing are adequately controlled to ensure that all departmental and Treasury Board directives are followed. CAVCO's business transformation plan is being implemented in view of the new Government On-Line (GOL) delivery model.

However, CAVCO needs to continue its efforts to implement corrective measures to meet the recommendations issued in 2005 by the Office of the Auditor General.

CAVCO still needs to develop a more robust operating structure, better documentation procedures, a formal risk-analysis, improved filing procedures and a continuous evaluation of both program outputs and staff in order to determine how it is meeting the standards that are expected from an organization that co-administers two programs valued at \$300 million annually.

The audit team observed some opportunities to strengthen controls in the fields of Policy and Programs, Stewardship, and Citizen Focused Services that are detailed in this report.

Recommendations

1. The DG, Cultural Industries should ensure that CAVCO establishes current and measurable performance indicators for service delivery and devotes resources to measure, collect, analyze and report data on the Program's performance on an ongoing basis.
2. The DG, Cultural Industries should ensure that CAVCO formally documents risk assessment activities undertaken as part of its procedures for reviewing files.

3. The DG, Cultural Industries should ensure that CAVCO develops a detailed disaster recovery plan and that compatible equipment and trained personnel are always available to operate, maintain and/or restore the database until the new system is fully implemented.
4. The DG, Cultural Industries should ensure that CAVCO establishes a standardized system for documenting files, including cross referencing with documents kept in other program files.
5. The DG, Cultural Industries should ensure that CAVCO undertakes a review of the CCCAP, in collaboration with CRA, to ensure that audits are being conducted in an efficient manner and in a timely basis so that appropriate measures can be taken against an applicant, when required.
6. The DG, Cultural Industries should ensure that CAVCO designs a clear CPTC guide for users, and user interface for the planned on-line system that will make it easier for applicants to submit all required documentation and to clarify those expenditures on which fees are calculated.
7. The DG, Cultural Industries should ensure that CAVCO formalizes and clearly documents the decision review procedures.

Statement of Assurance

In my professional judgment as Chief Audit and Evaluation Executive, sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of the opinion provided and contained in this report. The opinion is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed to with management. The opinion is applicable only to the entity examined and within the scope described herein. The evidence was gathered in compliance with Treasury Board policy, directives, and standards on internal audit and the procedures used meet the professional standards of the Institute of Internal Auditors. Sufficient evidence was gathered to provide senior management with the proof of the opinion derived from the internal audit.

Audit Opinion

In my opinion, the CAVCO Program is well controlled, well managed, effective and sustainable. Minor improvements are needed in the areas of Policy and Programs, Risk Management, Stewardship and Citizen Focused Services.

Original signed by:

Vincent DaLuz
Chief Audit and Evaluation Executive
Department of Canadian Heritage

Audit Team Members

Acting Director– Raynald Charest
Martin Montreuil
With the assistance of external resources

1. Introduction and Context

1.1 Authority for the Project

The authority for this audit derives from its inclusion in the risk-based audit plan for 2007-2008, as approved by the Audit and Evaluation Committee in 2007.

1.2 Background

CAVCO co-administers with the CRA, two federal government tax credit programs, which are the CPTC and PSTC Programs. A third program, the CCCAP, was created in 2001. CAVCO's budget in 2007-08 was approximately \$3.5 million and it employs 35 full time equivalents (FTEs).

CAVCO has the responsibility of ensuring that proper mechanisms are in place to deliver quality service at an acceptable level of risk.

For the CPTC Program, CAVCO is responsible for estimating eligible labour expenditures, and determining whether a production meets Canadian content, ownership and control requirements. CAVCO may then recommend that the Minister of PCH issue two mandatory certificates: the Canadian Film or Video Production Certificate (Part A certificate) and the certificate of completion (Part B certificate). Further to CRA's evaluation of eligible expenditures, tax refunds paid to applicants vary annually and range from \$175 to \$200 million per annum in total.

The PSTC Program requires that CAVCO confirm the initial eligibility of the production, and issue an "accreditation certificate". Total tax refunds paid by CRA based on these certificates have ranged from \$110 to \$125 million annually.

Tax credits allowed under these two tax credit programs total between \$285 and \$325 million in foregone revenue by the Canadian Government.

Under the CCCAP, the Manager of Operations chooses a sample of approximately 60 closed files each year for review to verify that the Canadian content requirements are met. These files are sent to CRA field auditors who investigate the issues raised by CAVCO's Manager of Operations. CAVCO paid CRA \$136,794 in 2007-2008 for this work.

2. Objectives

The CAVCO program audit is intended to provide program management with:

- Assurance that overall program governance structure, management controls and risk management frameworks are effective and adequate;
- Assurance that the current management of the program complies with policies and regulations; and
- An assessment of the status on the implementation of recommendations from the Office of the Auditor General of Canada's (OAG) report of November 2005.

3. Scope

For the period of April 1, 2005 to March 31, 2008, the audit examined the following areas:

- An assessment of the financial and non-financial controls encompassing the organization's governance, operations, and information systems.
- An assessment of the process through which tax credit approvals are established, approved and communicated in order to see how accountability is ensured, and values are preserved.
- An examination to monitor and assess significant exposure to risk and to contribute to the improvement of risk management.
- An assessment of the status of implementation of recommendations from the OAG's report of November 2005.

4. Approach and Methodology

The approach to this assignment has been designed to meet the established study objectives and scope stated in the Request for Proposal (RFP). The audit work was carried out in accordance with the Standards for the Professional Practice of Internal Audit, the standards and requirements set out in the Government of Canada Treasury Board Secretariat (TBS) Policy on Internal Audit, the Guide to the Planning, Conducting, and Reporting of Internal Auditing Assurance engagements in the Federal Government of Canada, and the internal requirements of the Office of the Chief Audit and Evaluation Executive (OCAEE) at PCH.

The fieldwork included a review of pertinent documentation (guidelines, procedures, policy and legislation), a review of program processes, and a review of the Program's financial and non-financial controls. Interviews with the program's personnel were conducted and a substantive sample of files by element, including approved and rejected applications, were reviewed.

5. Observations, Recommendations and Management Response

Policy and Programs relating to CAVCO are clearly defined in the Income Tax Act and Regulations. Roles and responsibilities, objectives and goals for CAVCO and CRA are clearly defined. Performance measurement and risk assessment are well understood, but are performed with difficulty, because of limited resources.

Stewardship of resources is well managed. Departmental Human Resource policies and procedures are followed. Financial processes are adequately controlled to ensure that all departmental and Treasury Board directives are followed.

CAVCO's budget consists of application fees collected from producers. This limits the number of staff and activities that CAVCO can carry out beyond the statutory requirements.

Existing tools and systems are somewhat inefficient and make the process difficult and time consuming for the applicants and staff. Visits with producers to identify opportunities in service improvements are limited, due to CAVCO's resource constraints.

The current Information Technology (IT) system was designed in an earlier era of information management for a directorate with a smaller client base and less need for management of information. Management started looking for a new system in 2001. Investment in the current system has only been made when absolutely necessary. This has restricted improvements in operations and in the ability to use information in the database.

CAVCO was hoping that a new computerized application process, currently in development, would result in gains of efficiency and free up staff time to complete other tasks such as proper documentation and quality control. However, the system and its implementation have been repeatedly delayed over the past five years and the system will not resolve all problems when it is delivered.

The CAVCO Program is part of the PCH's Cultural Industries Branch. With the large number of government dollars involved in tax refunds, a more robust operational framework, better documentation, a formal risk-analysis, improved filing procedures and continuous evaluation of both program outputs and staff are required.

5.1 Policy and Programs

5.1.1 Program Roles and Responsibilities

CAVCO co-administers with the CRA, two main federal government tax credit programs and a Canadian content audit program.

Roles and responsibilities for CAVCO and CRA are clearly defined and effective for the CPTC, the PSTC and the CCCAP programs.

On average, total credits granted by CRA based on CPTC certificates vary annually and range from \$175 to \$200 million per year.

For PSTC, total credits granted by CRA have ranged from \$110 to \$125 million annually.

CAVCO will need to continuously improve business practices and reinforce its documentation procedures to demonstrate that it meets and exceeds the standards that are expected from an organization that co-administers two programs valued at \$300 million annually.

There is also a special program with CRA called the Canadian Content Certification Audit Program. CAVCO chooses a sample of approximately 60 closed files each year. The Manager of Operations, in consultation with analysts, decides which files should be reviewed to ensure that the Canadian content requirements are met. CRA auditors examine the files and the records of the producer for evidence to substantiate Canadian content and may recommend revoking the A and the B Certificates if they find evidence that the Canadian content requirements are not met.

The Results-Based Management and Accountability Framework (RMAF) clarifies roles, responsibilities and objectives for the program. The RMAF is used by CAVCO to account for its results. There are clear statements of roles of the partners (PCH and CRA), and clear articulation of resources, objectives, activities, outputs and outcomes.

Risk Assessment

Although controls are adequate, there are large amounts of money involved in tax credits and the risk of an error in certifying a production that does not qualify could represent a significant cost to the Federal Government. CAVCO is diligent in mitigating this risk through the CCCAP and extensive application file review. However, in light of observations made in sections 5.2, 5.3 and 5.4 of this report, there is still room for the Program to improve processes and procedures.

Recommendation

No recommendation required as roles and responsibilities are clear.

5.1.2 Performance Measurement

The organization has not sufficiently focused on developing better performance indicators for service delivery, due to the current program delivery workload.

Service standards are based on the delay from the arrival of an application until approval or denial in Part A, and then determining if the requirements are met within the correct timeframe to issue the Part B certificate.

Performance indicators and measurements in place for customer satisfaction are based on comments received from producers on their satisfaction with the business process. These measures are more qualitative than quantitative.

The last survey covering customer satisfaction was conducted in 2007, during the evaluation of the CPTC Program. Since the results of this survey have been published recently, CAVCO has not yet used this information to improve its services. CAVCO is planning another client survey for the CPTC and PSTC Programs in 2010-11, once the Government On-Line (GOL) model is implemented and in use for at least one full year.

Designing better performance indicators was one of the recommendations of the OAG Report in 2005 and the recent summative evaluation of the CPTC Program. Although some progress has been made since the OAG's report, CAVCO needs to continue and expedite the development of performance indicators.

Risk Assessment

Performance indicators on the efficiency and effectiveness of operations are an essential part of management control. Not having current and measurable performance indicators puts the program at risk of poor decision-making.

Recommendation

1. The DG, Cultural Industries should ensure that CAVCO establishes current and measurable performance indicators for service delivery and devotes resources to measure, collect, analyze and report data on the Program's performance on an ongoing basis.

Management Response

Agreed.

5.2 Risk Management

5.2.1 Documentation of Risk Assessment in File Review

Risk assessment procedures are followed during the application file review process. However, our review of files showed that risk assessments conducted during file review are not documented.

There is a new formal risk assessment procedure that has been developed by CAVCO since the OAG report in 2005. Management stated that, although the procedure had not received final approval, staff members were aware of the procedure and were expected to document decisions since the fall of 2007. Files are assigned to analysts by supervisors based on the difficulty of the case and the ability/experience of the individuals.

The audit team expected that an assessment of risk levels would be captured in the database and used in the file evaluation to provide more information to senior management. The audit team was told that this information would also be used by the quality control group that will be staffed in line with the GOL. To do this, the audit team anticipated that a risk checklist would be used to cover each stage of the process and document the rationale for the risk ranking. However, there was no evidence in a sample of 12 files, selected from October 2007 to April 2008, that these assessments were being carried out.

Risk Assessment

Although a risk reporting tool is being developed to document the assessment done pursuant to the new risk assessment procedure, this tool needs to be implemented and clearly documented in the application files.

As a result, there is an increased potential that risks are not properly identified and managed and that decisions being made concerning files do not sufficiently consider all risk factors and mitigation strategies.

Recommendation

2. The DG, Cultural Industries should ensure that CAVCO formally documents risk assessment activities undertaken as part of its procedures for reviewing files.

Management Response

Agreed.

5.3 Stewardship

5.3.1 Current IT System

The current IT system for storing program information is maintained on an Access database. There is no detailed disaster recovery plan to mitigate current Information Management and Information Technology (IM/IT) risks.

There is a custom summary report that includes the detail of each CPTC file. This report is printed as a record several times during the processing of an application and added to the file. The information is corrected or changed on a paper copy by the analyst and then keyed into the database by a clerk. When the file is closed, the clerk makes the final updates, checks if any fee refunds are due and prints a copy for the file.

At the time of the audit, there was only one person who could produce the reports. If that person is unavailable at one time, reports are delayed, as there is no one else to provide the service. This database is key to the management of CAVCO information.

Risk Assessment

There is an increasing risk as the planned system is delayed repeatedly that key information could become unmanageable, severely disrupting operations. In addition, as only one individual is familiar with the database structure, the program could experience reporting delays if ever this individual is unavailable for an extended period of time.

Recommendation

3. The DG, Cultural Industries should ensure that CAVCO develops a detailed disaster recovery plan and that compatible equipment and trained personnel are always available to operate, maintain and/or restore the database until the new system is fully implemented.

Management Response

Agreed.

5.4 Citizen-Focused Service

5.4.1 File Organization and Completeness

Certification files in both the PSTC and CPTC programs could be better organized, as the audit team noted instances where information that was expected to be contained in the application file was not found, but was held in other files retained by the program, without any references in the application file. There was also no documentation of questions referred to the Compliance Committee (CC) and of the recommendations of the Committee.

There is no reference in the application file concerning documents that are required in the approval process but that are retained in separate program files. The analysts simply acknowledge that these documents exist in other program files and are reviewed as part of the application analysis process.

Documentation standards exist but are lacking. There was no evidence that supervisors were consistently enforcing application file documentation. There was no consistent documentation of the supervisors' review of the file and the analysts' recommendations. With respect to CPTC files, very few of the files reviewed were found to be well organized.

The audit team found that there was no documentation in the application files justifying the referral of the files to the CC and that information regarding revoked applications was not always documented. Records of the Committee's decision were retained in other program files and were not placed or referenced in all approved and revoked application files.

Risk Assessment

The risk of files being incomplete, improperly analysed, and/or unclear increases when files are not properly documented. In addition, opportunities for training new staff using existing files are lost when documentation of decisions is not on file.

Recommendation

4. The DG, Cultural Industries should ensure that CAVCO establishes a standardized system for documenting files, including cross referencing with documents kept in other program files.

Management Response

Agreed.

5.4.2 The CCCAP Program

CCCAP reviews approximately 60 files chosen annually by CAVCO. It was designed to ensure that the certified Canadian content in Part A and Part B certificates is accurate and properly documented by the applicant. The Manager of Operations sends specific questions and the CRA auditors go to the client site or carry out a desk audit to answer them.

CRA staff finds these audits very frustrating as they take place after the files are closed and they often have great difficulty locating the relevant producer and critical documentation. CRA raised the point in interviews that the files reviewed annually in this program are all closed files and the tax credits have usually been processed. In some instances, CRA is unable to reclaim tax credits when they find a problem, as too much

time has elapsed since the tax credit was granted. CRA would like to do the work or some of it much sooner.

CRA does financial audits, which are different than CCCAP audits. They audit a sample of claims before the tax credits are granted.

It could be more efficient to gather some information for CAVCO at an earlier stage, while the CRA auditor is at the client's site for the financial audits. Conversely, obtaining the CCCAP audit questions from the Manager of Operations sooner may point to information that would be useful to CRA during the financial audits.

CAVCO made the point that files need to be closed for all of the financial information to be available to verify that all of the regulations have been followed.

Risk Assessment

Because of the long time elapsed between the end of a production and the CCCAP audit, producers might profit from inaccurate or inappropriate tax credits from the CAVCO Program, and the ability to recuperate these funds is difficult.

Recommendation

5. The DG, Cultural Industries should ensure that CAVCO undertakes a review of the CCCAP, in collaboration with CRA, to ensure that audits are being conducted in an efficient manner and in a timely basis so that appropriate measures can be taken against an applicant, when required.

Management Response

Agreed.

5.4.3 Incomplete Applications

There is a high number of incomplete applications received by the CPTC program every year. There is also a large number of application fees refunded because applicants do not understand the items included/excluded from the fee calculations.

The CPTC program has been operating since 1996 without any legislative changes (in 2003, the rates changed but not the basic program) and yet, according to management, the number of incomplete/incorrect applications has remained at the 70 - 75% range. In the audit sample, the percentage was around 60%. It is evident that applicants continuously have problems completing the application form. The guide which is approximately 100 pages long, does not appear to be user friendly.

There were 258 instances where application fees were refunded in the 2007-08 year by the CPTC program. They ranged from \$0.17 to \$10,994 with 15 over \$1,000.

The formula to calculate the fee is simple. A fee rate is applied to an amount which is comprised of allowable expenditures, which is reduced by the value of the financial assistance received by the applicant for the production.

Some adjustments are simply due to the fact that actual expenditures are different than the planned expenditures submitted at the time of the application.

In other instances, applicants make errors in calculating the fee because they do not understand what is to be included/excluded in the amount used as a basis on which the fee rate is applied.

Changes in Part A fees are carried forward to fees due for Part B application. When the Part B certificate is approved and the file is being closed, CAVCO calculates any differences in fee. CAVCO has established minimum amounts for issuing reimbursement to or collecting fees from applicants.

Significant amounts of clerical and analytical time is spent following up with applicants to obtain missing information and documents. There is a formula for the calculation of CPTC fees and it is the same for Part A and Part B. The instructions for calculating the fee might be confusing to the applicants.

The inefficient use of resources hampers management's freedom to assign resources to the tasks of capturing information, analyzing operations and finding service delivery improvements. CAVCO must function with resources limited by its fee base, while front line service to producers is the priority.

The problem of incomplete applications and incorrect fee payments will only be exacerbated by the new on-line system if the information guide and materials available to the users are not improved and well tested before migrating to the new computer system.

Risk Assessment

When incomplete or erroneous applications are received by CAVCO, a great amount of staff time is spent in obtaining missing information and clarifying information. A high error rate also increases the risk that errors will filter through CAVCO's reviewing process.

Recommendation

6. The DG, Cultural Industries should ensure that CAVCO designs a clear CPTC guide for users, and user interface for the planned on-line system that will make it easier for applicants to submit all required documentation and clarify those expenditures on which fees are calculated.

Management Response

Agreed.

5.4.4 Review of Decisions

Reviews of decisions are all handled by the most senior official. There is no formal documented procedure that oversees the review process.

According to the Director, producers request a review of almost all denied and revoked CPTC certificates. These reviews are all handled by the Director who is the most senior person involved in the original decision. Sometimes, additional information is provided and this might or might not result in a change in the ruling.

There is no formalized and documented decision review process within CAVCO. The audit team was told that one was being drafted at the time of the audit, but it was not completed before the end of the audit.

Risk Assessment

An undocumented review procedure increases the risk that it may be perceived as being improvised, biased, unfair and/or unreasonable and review decisions could be challenged by applicants that have the impression of being unfairly treated.

Recommendation

7. The DG, Cultural Industries should ensure that CAVCO formalizes and clearly documents the decision review procedures.

Management Response

Agreed.

6. OAG Recommendations from 2005

CPTC

There are still two OAG recommendations that required a response by CAVCO. These recommendations are presented below, along with the work that is being done by CAVCO management to meet these recommendations. This needs to be validated by the Audit and Assurance Services Directorate.

All other recommendations were met and actions taken have been validated by the Audit and Assurance Services Directorate/.

First Rec. - 5.104: PCH should, in collaboration with the CRA, put in place procedures to share, systematically and in a sustained manner, all information necessary to administer tax credits.

Here is what CAVCO has done since:

- CAVCO provides monthly reports on certified/revoked productions to CRA
- CAVCO and CRA have developed a risk assessment tool to improve their administration of CPTC
 - Writing is completed, the policy is still in a draft form and in the process to be approved (a copy of the document has been provided to the audit team)
 - Objective is to reduce the risk associated with the CPTC tax credits received by a production company, and processed by CRA based solely on the strength of CAVCO's A certificate, while the completion certificates are still outstanding.

Second Rec. - 5.8: CAVCO should document its business procedures and business risks, establish controls to mitigate those risks, and implement a quality control process; obtain documents supporting the Canadian citizenship or permanent resident declaration for each key creative personnel who participates in an audiovisual production for the first time, and keep this information for future reference; and clarify and resolve its differences of opinion with the CRA on Canadian content audits that the CRA conducted.

- CAVCO has completed the drafting of its business procedures manual and its risk-management manual, and implemented new quality control procedures at the supervisory level.
- In 2009-10, CAVCO plans to staff positions in a new Quality Control division.
- CAVCO has developed a proposed Policy on Canadian Citizenship Requirements and briefed the OAG office.
 - The policy will include a new citizenship audit function and will be in force on June 1, 2009 with the new client services online.
 - The policy is consistent with the approach used by Telefilm Canada and the CTF.
- CAVCO and CRA have improved their communications and exchange information and data on a monthly basis. CRA is part of the Federal Provincial Tax Credit Group, chaired by CAVCO that meets twice a year to exchange information. There is more informal communication (phone or conference calls) between the two groups CRA and CAVCO.
- CRA staff is invited to CAVCO training sessions for producers.
- CRA audits 60 productions per year under the CCCAP.

Appendix A: Audit Criteria

The conclusions reached for each of the audit criteria used in the audit were developed according to the following definitions.

Numerical Categorization	Conclusion on Audit Criteria	Definition of Conclusion
1	Well Controlled	<ul style="list-style-type: none"> • well managed, no material weaknesses noted; and • effective.
2	Controlled	<ul style="list-style-type: none"> • well managed, but minor improvements are needed; and • effective.
3	Moderate Issues	<p>Has moderate issues requiring management focus (at least one of the following two criteria need to be met):</p> <ul style="list-style-type: none"> • control weaknesses, but exposure is limited because likelihood of risk occurring is not high; • control weaknesses, but exposure is limited because impact of the risk is not high.
4	Significant Improvements Required	<p>Requires significant improvements (at least one of the following three criteria need to be met):</p> <ul style="list-style-type: none"> • financial adjustments material to line item or area or to the department; or • control deficiencies represent serious exposure; or • major deficiencies in overall control structure. <p>Note: Every audit criteria that is categorized as a "4" must be immediately disclosed to the CAEE and the subjects matter's Director General or higher level for corrective action.</p>

The following are the audit criteria and examples of key evidence and/or observations noted which were analyzed and against which conclusions were drawn. In cases where significant improvements and/or moderate issues were observed, these were reported in the audit report.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence / Observation
1	Program Management Framework Roles and responsibilities are clearly defined for operation of the Program.	1	<ul style="list-style-type: none"> There are clear statements of roles of the partners (PCH and CRA), and clear articulation of resources, objectives, activities, outputs and outcomes.
2	Processes are in place to plan, organize, control, direct and communicate the activities of the Program. The objectives and goals of the programs are clear and measurable.	2	<ul style="list-style-type: none"> The general objectives and goals for the programs the audit team reviewed are clear.
3	Management continually improves the economy, efficiency and effectiveness of the operations.	2	<ul style="list-style-type: none"> Although it could be better explained to CAVCO clients, the processing of fees and refunds follows the correct process and has appropriate review and approval. Nonetheless, there are large amounts of money involved in the tax credits and an error in certifying a production that did not qualify would represent a significant cost to the country.
4	Management has practices in place to measure and report performance.	3	<ul style="list-style-type: none"> The performance standards are based on the time taken from application receipt until it is either approved or denied. Performance indicators and measurements in place for customer satisfaction are based on comments received from producers – however, measures are more qualitative than quantitative. Designing better performance indicators is a recommendation in the OAG audit report in 2005.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence / Observation
5	Mechanisms exist to identify, assess, monitor and report on risks.	3	<ul style="list-style-type: none"> • There is a new formal risk assessment policy implemented since the OAG audit report in 2005. • However, there was no evidence in the sample that these assessments are being carried out. • No corporate memory of types of risks and how to rank and report them to management is being developed.
6	Management of Resources Human resources are appropriately planned, managed, and supported. Sufficient resources and the appropriate level are available to provide service.	1	<ul style="list-style-type: none"> • The current CAVCO staffing is adequate to provide the current level of service with the current volume of applications. Human resources are appropriately planned, managed and supported for operations at this level. • CAVCO has had difficulty staffing analyst positions and special recruitment has been carried out to reach potential applicants.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence / Observation
7	Financial resources are appropriately planned, managed controlled and recorded. All financial transactions are in compliance with the requirements of the Financial Administration Act.	1	<ul style="list-style-type: none"> • Process flow diagrams existed for the program identifying controls. • Controls are adequate and were operating during the period examined.
8	Management has reliable information systems that support decision-making and accountability.	3	<ul style="list-style-type: none"> • The current system is being replaced. There was only one person who could produce reports – no one else could manipulate the system. • The extended timeframe in which CAVCO has been waiting for a new system has meant that the current system had to be extended repeatedly with investment made only when absolutely necessary. • If the software should fail and the database become inaccessible, CAVCO would have to deal with the paper files.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence / Observation
9	Operational Compliance The Program is administered in accordance with relevant legislation, regulations and central agency/departmental policies.	3	<ul style="list-style-type: none"> • Program operations were adequately managed and controlled except as follows: • Certification Files in both the PSTC and CPTC programs were poorly organized, were missing references to information and documents contained in other files retained by the program, checklists that were not completed. There was no documentation of questions referred to the CC and of the recommendation of the committee. • CCCAP reviews approximately 60 files annually that are chosen by CAVCO's Manager of operations and sent to CRA to audit. Because of the long time elapsed between the end of a production and the CCCAP audit, producers might benefit from inaccurate or inappropriate tax credits from the CAVCO Program, with limited ability to recuperate these funds. • There is no formalized and documented decision review process within CAVCO
10	<ul style="list-style-type: none"> • Applications are reviewed and assessed against documented criteria and delivery expectations. Subsequent audit by CRA discloses no errors made by CAVCO staff. • Sufficient information available to evaluate the proposed contribution and to provide information to evaluate the 	3	<ul style="list-style-type: none"> • There is a high number of incomplete applications received in the CPTC program every year. • There is a large number of adjustments made because applicants do not understand the items included/excluded from the fee calculations. • Significant amounts of clerical and analytical time are wasted following up with applicants to get missing information and documents.

Criteria #	Audit Criteria	Conclusion on Audit Criteria	Examples of Key Evidence / Observation
	project / program. <ul style="list-style-type: none">Information about the program is available.		
11	There should be audits of the Program processes.	2	<ul style="list-style-type: none">There are still two OAG recommendations that require a response by CAVCO. All other recommendations were met and validated by the Audit group of PCH. Work is being done by CAVCO management team to meet the two recommendations.

Appendix B: List of Acronyms

CAVCO	Canadian Audio-Visual Certification Office
CCCAP	Canadian Content Certification Audit Program
CPTC	Canadian Film or Video Production Tax Credit
CRA	Canada Revenue Agency
OAG	Office of the Auditor General
PSTC	Production Services Tax Credit
RMAF	The Results-Based Management and Accountability Framework
TBS	Treasury Board Secretariat

